



Cabinet Report

Date **9 MARCH 2023**

Title **COUNCIL TAX PREMIUMS OF SECOND HOMES AND EMPTY PROPERTIES**

Report of **CABINET MEMBER FOR STRATEGIC FINANCE, TRANSFORMATIONAL CHANGE AND CORPORATE RESOURCES**

EXECUTIVE SUMMARY

1. The Levelling Up and Regeneration Bill was given its first reading in the House of Commons on 11 May 2022, its aim to devolve power and give local leaders and communities the tools they need to make better places. It has since completed readings and committee stages in the House of Commons and has now progressed to the House of Lords.
2. The Bill will also empower if enacted, Councils to apply a council tax premium of up to 100 per cent on any home left empty for longer than a year, rather than two thereby encouraging more empty homes back into productive use.
3. The Bill if enacted, also recognises the impact that high levels of second home ownerships can have in some areas and will introduce a new discretionary council tax premium on second homes of up to 100 per cent.
4. Billing authorities wishing to adopt any changes arising from the Bill are required to make a Council resolution confirming their requirements at least 12 months prior to the financial year in which the changes will come into effect meaning that the Bill will need to obtain Royal Assent prior to 31 March 2023, to adopt the changes for the year commencing 1 April 2024. Such a resolution can only be made once the legislation is in force.
5. Billing authorities must adopt policies for the application of council tax premiums, so this report aims to inform councillors there is forthcoming legislation to apply council tax premiums on empty properties and second homes on the Island.

RECOMMENDATION

6. Cabinet notes that the Department for Levelling Up Housing and Communities is sponsoring a bill to provide legislation that enables Local Authorities to apply premiums to second homes and empty properties.

Cabinet notes its support for this aspect of the bill and further notes the statutory powers it would provide to Local Authorities if the bill is enacted.

The Cabinet advises Full Council that, should the Levelling Up and Regeneration Bill become law, a further paper will be presented to Full Council regarding the earliest possible implementation of premiums on second homes and empty properties.

BACKGROUND

7. The Government encourages all billing authorities to adopt council tax premiums on empty properties with a view to incentivising property owners to bring those properties back into use. Premiums can be charged currently where properties are left unoccupied and unfurnished for periods exceeding two years.
8. In May 2022 the Government published the Levelling Up and Regeneration Bill (the Bill). The Bill includes proposals aimed at further addressing empty properties through the application of council tax premiums, in addition to measures that recognise the impact that high levels of second home ownership can have in some areas.
9. Through the Bill it is the Government's intention to:
- (a) Reduce the minimum period for the implementation of a council tax premium for empty properties from two years to one year and
 - (b) Allow Councils to introduce a Council Tax premium of up to 100 per cent in respect of second homes
10. The changes outlined in paragraph 8 are subject to the Bill receiving Royal Assent. In its current form the Bill requires billing authorities to make a resolution confirming their intentions on the application of the premiums at least 12 months prior to the financial year in which the changes will come into effect.
11. The Bill continues to make its way through Parliament and currently sits at the committee stage of the House of Lords.
12. This report seeks to inform of the proposed council tax premiums as set out within the Bill, subject to Royal Assent being obtained.

13. Recent years have seen an increase in second home/holiday home ownership and a rise on 'staycations and short-term lets. These factors have reduced the availability of housing on the Island. Second home ownership across the Island is significant and is recognised to have a negative impact in terms of the supply of homes available to meet local housing needs.
14. Initial analysis shows that the application of a 100 per cent premium on second homes could generate additional council tax revenue in excess of £6 million and a further £286,897 for empty properties as detailed in the tables below.
15. Table 1: Potential council tax revenue generated from a 100% premium on second homes Figures correct as of 21 February 2023

Properties	Number of properties	Current Value £	Value with 100% premium £
Band A	346	497,719	995,438
Band B	499	836,348	1,672,696
Band C	515	978,671	1,957,342
Band D	546	1,167,184	2,334,368
Band E	427	1,109,264	2,218,529
Band F	254	779,835	1,559,671
Band G	179	632,435	1,264,871
Band H	21	89,328	178,656
Total	2787	6,090,784	12,181,571 *

* excludes any amount for non-collection

16. Table 2: Potential council tax revenue generated from a 100% premium on properties empty more than one year but less than 2 years Figures correct as of 21 February 2023.

Properties	Number of properties	Current Value £	Value with 100% premium £
Band A	24	34,595	69,191
Band B	29	55,170	110,341
Band C	31	60,661	121,323
Band D	22	34,595	69,191
Band E	17	59,441	118,882
Band F	10	35,318	70,636
Band G	2	7,114	14,228.24
Band H	0	0.00	0.00
Total	135	286,894	573,792

In 2025/26, the Isle of Wight Council will keep approximately 81% of the Council Tax that it collects. The Police and Crime Commissioner will keep approximately 11% the Isle of Wight Fire Authority will keep 3% and Town, Parish and Community Councils will keep approximately 5%.

17. Income generated from the premium would be shared across all preceptors although the majority of revenue would benefit the Island.
18. A number of concerns have been raised in regard to whether the application of a second homes premium might encourage Council Tax “avoidance”, for instance by the owners of such properties transferring the property to business rates. Given that the Council Tax rates for second homes mirror those of main residences there may also be issues with the current classification of properties within each district’s Council Tax system, and the application of a second homes premium may prompt owners to reclassify properties for genuine reasons; reducing the potential revenue that might be derived from the premium and the figures quoted in the tables detailed on page 4. Paragraphs 19 and 20 provide further detail on the checks that are in place to ensure that the classification of properties remains accurate according to its use and therefore is charged appropriately.
19. Currently, properties that are available to let for more than 20 weeks (140 days) in a calendar year can be rated as business rates by the Valuation Office Agency (VOA). The only detail needed to support such a claim is evidence of an advertisement for let for the property. From April 2023 these criteria will still apply but additionally it must be demonstrated that the property was available to let for more than 20 weeks in the previous year, and proof must be provided that the property was actually let for short periods totalling at least 70 days. The burden of providing evidence to support future changes will be the homeowners and will be verified by the Council and reported to the VOA. This change should ensure that any properties transferring from Council Tax to Business Rates relate to genuine circumstances where the property is being utilised for business purposes.
20. Another concern that has been mooted is that couples who own second homes may claim that they are living separately and are single occupants of each respective property. If such cases arise there will be mechanisms available to the council to check the circumstances giving rise to any discount or exemption claimed, including single person discounts. These circumstances can be verified against the information that has been supplied to the council to claim the reduction. Financial penalties can be imposed where false information is provided and will assist in ensuring that data held is accurate.
21. Legislation to apply a 100 per cent premium on second homes was introduced in Wales in 2017/18 and the premium was paid on 24,873 properties in the 21/22 year. This number had increased across Wales by 2,005 from the number recorded at the outset of the scheme in 2017/18. Some areas, which historically had the highest number of second homes have seen a downward adjustment to the number of recorded second homes and the maximum recorded reduction in any area is 9%. It is uncertain whether these downward trends have been triggered by avoidance loopholes or are evidence that the premiums have achieved one of the intended outcomes of bringing second homes back into use as mainstream housing provision.

22. The second homes figures in Wales suggest that regardless of any avoidance issues that might remain within the system there should still be sufficient incentive for the Council to consider a Council Tax premium on second homes in order to help address the issues caused by second home ownership within the area.

CORPORATE PRIORITIES AND STRATEGIC CONTEXT

23. Provision of affordable housing for Island Residents

The Island is facing a housing crisis. Since the onset of the pandemic over 80 per cent of its private rented stock has become unavailable for long term lets. Approximately 15,000 households struggle to accommodate themselves in the local housing market. Those on the lowest incomes and highest needs struggle to afford current market rents and prices, well below the Government's accepted standard definition of affordable housing. Hence by reducing the amount of time a property can be empty and introducing a premium on second homes we can potentially bring empty properties back into use sooner and increase the charge for second homes thereby discouraging their use and the impact this has on local communities.

Responding to climate change and enhancing the biosphere

24. Adopting the council tax premiums for empty properties and second homes will not impact on climate change.

Economic Recovery and Reducing Poverty

25. The Council intends to take full advantage of the powers within legislation to gain additional revenue to fund services for Island communities in order to support its most vulnerable residents.

26. Impact on Young People and Future Generations

The bill if enacted, may provide additional housing benefits for future generations in the long term.

CONSULTATION

27. There is no requirement for any consultation as this change is subject to a change in legislation.

FINANCIAL / BUDGET IMPLICATIONS

28. Implementing the powers provided by the new legislation will increase revenue. So, it is estimated that:
- (a) The implementation of a 100 per cent premium for properties empty for more than one year but less than 2 years is £286K.
 - (b) Applying a second home premium of 100 per cent is estimated to generate additional income in excess of £6 million.

LEGAL IMPLICATIONS

29. This report is subject to the Levelling Up and Regeneration Bill and will be governed by legislation if Royal Assent is granted.

EQUALITY AND DIVERSITY

30. An Equality Impact assessment is attached to the report.

OPTIONS

31. The options for consideration are as follows:

OPTION 1

- (i) Cabinet notes that the Department for Levelling Up, Housing and Communities (DLUHC) is sponsoring a bill to provide legislation that enables Local Authorities to apply premiums to second homes and empty properties
- (ii) Cabinet notes its support for this bill and further notes the statutory powers it would provide to Local Authorities if the bill is enacted
- (iii) The Cabinet advises Full Council that, should the Levelling Up and Regeneration Bill become law, a further paper will be presented to Full Council regarding the earliest implementation possible of premiums on second homes and empty properties.

OPTION 2

Not to make any comment in relation to the bill until such time as it is enacted

RISK MANAGEMENT

32. By not taking advantage of the legislation when enacted, the Council is not maximising the opportunity to collect further income to fund local services to meet the needs of its residents.
33. There is the risk that liable parties for council tax will try to avoid these premiums but there are processes and checks in place to ensure that fraud is not being committed.

EVALUATION

34. The Levelling Up and Regeneration Bill intends to provide additional powers for councils to implement premiums for empty properties and second homes in order to improve outcomes for local people by means of providing more housing or to generate more income to support local services where empty properties and second homes are retained. It would be remiss of the council not to take advantage of the ability to raise additional revenue for the good of Island residents.

APPENDICES ATTACHED

Appendix 1 - Equality Impact Assessment

Contact Point: Debbie Vallas, Benefits Operational Manager – Tel (01983) 823950
e-mail debbie.vallas@iow.gov.uk

SHARON BETTS
Director of Corporate Services

(CLLR) CHRIS JARMAN
*Cabinet Member for Strategic Finance,
Transformational Change and Corporate
Resources*